

Message Text

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12

ACTION NEA-10

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R 190725Z JUN 75

FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC 3062

INFO AMEMBASSY JIDDA

AMEMBASSY KUWAIT

C O N F I D E N T I A L ABU DHABI 1309

E.O. 11652: GDS

TAGS: EINV, TC

SUBJ: ABU DHABI INVESTMENTS ENTANGLED IN DOMESTIC POLITICS

DEPT PASS TREASURY

1. FOR SOME TIME NOW, IT HAS BEEN EXPECTED THAT THE ABU DHABI GOVERNMENT WOULD FORMALLY ANNOUNCE THE DISBANDMENT OF ITS INVESTMENT BOARD AND THE ESTABLISHMENT OF AN INVESTMENT COMPANY FORMED ALONG THE SAME LINES AS THE KIC. ADG HAS GONE SO FAR AS TO HIRE JEAN BATILLARD WHO, WE UNDERSTAND, HAS HAD LONG EXPERIENCE IN KUWAIT.

2. INVESTMENT COMPANY IS HOWEVER TOTALLY ENTANGLED IN ARGUMENTS CONCERNING COMPANY'S PLACE IN GOVERNMENT BUREAUCRACY. BATILLARD WANTS THE COMPANY AS INDEPENDENT AS POSSIBLE OF THE DEPARTMENT OF FINANCE AND JOHN BUTTER THE DIRECTOR GENERAL. MOREOVER BATILLARD ARGUES FOR MORE ACTIVE INVESTMENT STRATEGY IN ADDITION TO ASSUMING MOST OF THE INVESTMENT DECISIONS NOW MADE BY BUTTER. IF BATILLARD WINS THIS ARGUMENT, BUTTER WOULD BE REDUCED TO A BUDGET DIRECTOR AND SHORT-TERM MONEY MONEY MANAGER.

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3. THIS CONFLICT REFLECTS INCREASING DISSATISFACTION WITH ABU DHABI'S INVESTMENT PHILOSOPHY. BUTTER'S CRITICS ARE NOT UNITED IN THEIR OPPOSITION BY ANY MEANS, BUT THEIR COMMON THEME IS EITHER A DESIRE FOR MORE DIRECT INVESTMENT (ZAKI AND THE ABU DHABI FUND) OR TO BECOME ACTIVELY INVOLVED IN MERCHANT BANKING AND UNDERWRITING (ADNAN PACHICHI, RON SCOTT, CURRENCY BOARD DIRECTOR, AND BATILLARD). BUTTER, ON THE OTHER HAND, HANDLES ABU DHABI'S SURPLUS AS IF IT WERE A PENSION FUND, ATTEMPTING TO SAVE 20-25 PERCENT OF ANNUAL REVENUE, DOLING IT OUT TO TRUSTED PORTFOLIO MANAGERS IN ORDER TO PRESERVE THE VALUE OF CAPITAL AGAINST INFLATION AND THE DAY WHEN THE OIL RUNS OUT.

4. EMBASSY WOULD BE VERY MUCH SURPRISED IF CONFLICT IS SETTLED ON MERITS OF DIFFERENT INVESTMENT PHILOSOPHIES. IN AN ATTEMPT AT SOLOMAN-LIKE WISDOM, ADG MAY DECIDE TO SPLIT THE BABY IN TWO, E.G. LETTING BUTTER HANDLE REAL ESTATE WHILE THE INVESTMENT COMPANY WORKS ON DIRHAM FINANCING. KEY DECISION HOWEVER WILL BE AN ALLOCATION OF RESOURCES TO VARIOUS INVESTMENT ACTIVITIES. IT WILL BE INTERESTING TO SEE IF BUTTER HOLDS ON TO THAT RESPONSIBILITY COME THE FALL.
STERNER

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